BIG 5 FALSE BAY MUNICIPALITY

Annual Financial Statements
for the year ended 30 June 2012

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
INEG	Integrated National Electrification Grant
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

General Information

Mayoral committee	
Mayor	CC Gumede
Councillors	ZM Mokeona
	MS Msane
	NR Bukhosini
	CT Khumalo
	FZ Zulu
	N Thethwayo
Grading of local authority	Low Capacity Municipality
Accounting Officer	AM Dhlomo
Auditors	The Auditor-General Private Bag X9034 PIETERMARITZBURG 3200
Attorneys	Duvenage Incorporated Old Main Road Hluhluwe 3960
Chief Finance Officer (CFO)	MSI Mkhwanazi
Business address	163 Zebra Street Hluhluwe 3960
Postal address	P.O BOX 89 Hluhluwe 3960
Bankers	First National Bank of SA

Accounting Officer's Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003) to maintain adequate accounting records and is responsible for content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that financial statements fairly represent the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the year ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognized Accounting Practices (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgment and estimates. The accounting officer acknowledges that he is ultimately responsible for the system of internal and financial contros established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is the identification, assessment, management and monitoring of all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied and managed within predetermined procedures and constraints.

AM Dhlomo
Accounting Officer

Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	Restated 2011
Assets			
Current Assets			
Receivables from exchange transactions	4	6,785,320	3,874,236
VAT receivable	5	1,755,075	993,348
Cash and cash equivalents	2	407,476	1,251,166
Short Term Investments	3	981,708	674,754
		9,929,579	**6,793,504**
Non-Current Assets			
Property, plant and equipment	18	94,740,547	47,656,576
Intangible assets	19	313,514	315,073
		95,054,061	**47,971,649**
Non-Current Assets		95,054,061	47,971,649
Current Assets		9,929,579	6,793,504
Total Assets		**104,983,640**	**54,765,153**
Liabilities			
Current Liabilities			
Provisions	20	1,417,874	1,749,568
Unspent conditional grants and receipts	22	2,536,157	1,803,175
Payables from exchange transactions	21	7,736,108	8,393,191
		11,690,139	**11,945,934**
Non-Current Liabilities		-	-
Current Liabilities		11,690,139	11,945,934
Total Liabilities		**11,690,139**	**11,945,934**
Assets		104,983,640	54,765,153
Liabilities		(11,690,139)	(11,945,934)
Net Assets		**93,293,501**	**42,819,219**
Net Assets			
Accumulated surplus		93,293,501	42,819,219

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	6	5,169,761	3,957,330
Rates Penalties	10	994,896	691,334
Service charges	7	1,020,336	1,237,384
Rental of facilities and equipment	8	129,540	148,626
Interest received - External investment	9	178,102	192,246
Fines		31,231	28,808
Government grants & subsidies	11	29,746,209	21,201,822
Other		570,972	45,202
Land Sales		-	807,018
Total Revenue		**37,841,047**	**28,309,770**
Expenditure			
Personnel	12	9,190,078	6,752,926
Remuneration of councillors	13	1,429,783	1,372,875
Depreciation and amortisation	14	2,417,683	1,841,840
Repairs and maintenance		270,706	170,399
Finance costs	15	109,593	102,977
Grants and subsidies paid		4,762,721	2,819,245
Contracted services		807,525	790,325
Debt impairment		10,820	787,558
General Expenses	16	9,569,724	9,012,844
Total Expenditure		**28,568,633**	**23,650,989**
Revenue		37,841,047	28,309,770
Expenditure		(28,568,633)	(23,650,989)
Surplus for the year		**9,272,414**	**4,658,781**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2010	**36,644,575**	**36,644,575**
Changes in net assets		
Surplus for the year	4,658,781	4,658,781
Total changes	4,658,781	4,658,781
Opening balance as previously reported	41,303,356	41,303,356
Adjustments		
Correction of errors	1,515,862	1,515,862
Balance at 01 July 2011 as restated	**42,819,218**	**42,819,218**
Changes in net assets		
Fair value gains, net of tax: Land and buildings	41,201,869	41,201,869
Net income (losses) recognised directly in net assets	41,201,869	41,201,869
Surplus for the year	9,272,414	9,272,414
Total recognised income and expenses for the year	50,474,283	50,474,283
Total changes	50,474,283	50,474,283
Balance at 30 June 2012	**93,293,501**	**93,293,501**

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Cash receipts from ratepayers, government grants and other		34,597,199	28,186,228
Interest income		178,102	192,246
Payments			
Cash paid to suppliers and employees		(25,557,454)	(21,523,783)
Finance costs		(109,593)	(102,977)
		(25,667,047)	(21,626,760)
Total receipts		34,775,301	28,378,474
Total payments		(25,667,047)	(21,626,760)
Net cash flows from operating activities	17	**9,108,254**	**6,751,714**
Cash flows from investing activities			
Purchase of property, plant and equipment	18	(8,196,742)	(8,917,199)
Proceeds from sale of property, plant and equipment	18	-	38,708
Purchase of other intangible assets	19	(110,838)	(11,415)
Net cash flows from investing activities		**(8,307,580)**	**(8,889,906)**
Cash flows from financing activities			
Movement in Unspent conditional Grant		(1,337,410)	-
(Increase)/Decrease in investments		(306,954)	(35,910)
Net cash flows from financing activities		**(1,644,364)**	**(35,910)**
Net increase/(decrease) in cash and cash equivalents		**(843,690)**	**(2,174,102)**
Cash and cash equivalents at the beginning of the year		1,251,166	3,425,268
Cash and cash equivalents at the end of the year	2	**407,476**	**1,251,166**

Accounting Policies

1. Basis of presentation

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. These annual financial statements have been prepared in accordance with the Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The summary of the significant accounting policies, which have been consistency applied are disclosed below. These accounting policies are consistent with the previous period, unless otherwise stated.

These standards are summarised as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statement
GRAP 3	Accounting Policies , Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 9	Revenue from Exchange Transactions
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Properties
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 100	Non-current Assets Held for Sale and Discontinued Operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets

1.1 Presentation of currency

These annual financial statements are presented in South African Rand.

1.2 Going concern assumption

These annual financial statements have been prepared on a going concern basis.

1.3 Standards, ammendments to standard and interpretations issue but not yet effective

The Municipality has no applied the following standards and interpretations, which have been published and are mandatory for the Municipality's accounting beginning on or after 01 April 2012 or late periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the Municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an Municipality reports information to management.

Segments information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an Municipality that provides specific outputs or achieves particular operating objectives that are in line with the Municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved by an Municipality within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The Municipality expects to adopt the standard for the first time once it becomes effective
.
The impact of this standard is currently being assessed.

Accounting Policies

1.3 Standards, ammendments to standard and interpretations issue but not yet effective (continued)

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an Municipality receives value from another Municipality without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as the date of acquisition.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, expect to the extent that a liability is recognised for the same inflow. As an Municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

The effective date of the standard is for years beginning on or after 01 April 2012.

The Municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the Municipality's annual financial statements.t

GRAP 24: Presentation of Budget Information in the Financial Statements

An Municipality should present comparison of the budget amounts for which is held publicity accountable and actual amounts either as a separate additional financial statements or as additional budget columns in the financial statements currently presented in accordance with standards of GRAP. The comparison of budget amounts shall presents separately for each level of legislative oversight:

- the approved and final budget amounts.
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the Municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

GRAP 21: Impairment of Non-cash-generating Assets.

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds is recoverable service amount, it is impaired.

The present value of the remaining service potential of non-cash –generating asset is determined using one of the following approaches:

- Depreciated replacement coast approach
- Restoration cost approach
- Service units approach

The effective date of the standard is for the year beginning on or after 01 April 2012.

The Municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the Municipality's annual financial statements.

GRAP 26: Impairment of Cash-generating Assets

Cash-generating assets are those assets held by an Municipality with the primary objectives of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated Municipality, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

1.3 Standards, ammendments to standard and interpretations issue but not yet effective (continued)

GRAP 25: Employee Benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits.

GRAP 25 must be applied by an employer in accounting for all employee benefits, expect share based payment transactions.

This standard has been approved by the Board bit its effective date has not been determined by the Minister of Finance.

The Municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the Municipality's annual financial statements.

GRAP 104: Financial Instruments

The Standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial assets in one Municipality and a financial liability or residual interest in another Municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

Financial assets and financial liabilities are initially recognised at fair value, where an Municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

Concessionary loans are loans either received by or granted to another Municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measures either at fair value or, amortised cost or cost. An Municipality measures a financial instrument at fair value if it is:

- A derivative;
- a combined instrument designated at fair value, i.e. an instruments that includes a derivative and non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investments in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

GRAP 104 requires extensive disclosure on the significance of financial instruments for Municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an Municipality is exposed to as a result of its annual financial statements. Some disclosures , for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An Municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

The effective date of the standard is for years beginning on or after 01 April 2012.

1.3 Standards, ammendments to standard and interpretations issue but not yet effective (continued)

GRAP 20: Related Party Disclosures.

The objective of the standard is to ensure that an Municipality's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The Standard has been approved by the Board but its effective date has not been determined by the Minister of Finance.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Land and Buildings which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Accounting Policies

1.4 Property, plant and equipment (continued)

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Roads and Paving	30
Buildings	30
Padestrian Malls	30
Electricity	20-80
Recreational Facilities	20-30
Security	5
Specialist Vehicles	10
Other Vehicles	5
Office Equipment	3-7
Furniture and Fittings	7-10
Watercraft	15
Bins and Containers	5
Specialised Plant and Equipment	10-15
Other Items of Plant and Machinery	2-5
Landfill Sites	20

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

1.5 Intangible assets (continued)

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Computer software, other	2-5 years

1.6 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method. Investments, which include listed, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

1.7 Receivables

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current. An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

Accounting Policies

1.8 Financial liabilities: Accounts payable

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liaibilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

1.9 Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

1.10 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.11 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.12 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.13 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

1.15 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions,liability is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible Councilors or officials is virtually certain.

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

1.16 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.19 and . In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The Municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the Municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

1.18 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an Municipality pays fixed contributions into a separate Municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the Municipality during a reporting period, the Municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an Municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.18 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the Municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting Municipality) that are held by an Municipality (a fund) that is legally separate from the reporting Municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting Municipality's own creditors (even in liquidation), and cannot be returned to the reporting Municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting Municipality; or
- the assets are returned to the reporting Municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the Municipality's informal practices. Informal practices give rise to a constructive obligation where the Municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the Municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The Municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Accounting Policies

1.18 Employee benefits (continued)

The Municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The Municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The Municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an Municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an Municipality shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The Municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the Municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The Municipality offsets an asset relating to one plan against a liability relating to another plan when the Municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.18 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.19 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Accounting Policies

1.20 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

1.21 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.22 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

1.22 Investment property (continued)

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

1.23 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at thecurrent market interest rate that is available to the municipality for similar financial instruments.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Useful lives of property, plant and equipment and intangable assets

The municipilty's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and intangable assets. This estimae is based on the condition and use of the individual assets, in order o determine the reamaining period over which the asset can and will be used.

1.24 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through surplus or deficit - designated
- Loans and receivables

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

1.24 Financial instruments (continued)

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit exclude dividends and interest.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Loans to (from) economic entities

These include loans to and from controlling entities, fellow controlled entities, controlled entities, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Accounting Policies

1.25 Leases

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. However, if the lease term has expired the actual amount incurred is recognised as an expense and commitments will be one years worth of expenditure estimated from the current information available.

1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

1.27 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

2. Cash and cash equivalents

Cash and cash equivalents consist of:

	2012	2011
Cash on hand	689	2,000
First National Bank (Primary bank account) - 62022340385 (Main Bank Account)	72,096	222,913
First National Bank (Call account) - 62075347396	132,421	3,585
First National Bank (Call account) - 62214360068	153,380	579,524
First National Bank (Housing Development Fund) - 62191984949	48,890	443,144
	407,476	**1,251,166**

3. Short Term Investments

	2012	2011
ABSA (Public Sector KwaZulu Natal) - 9109586760	637,863	624,583
First National Bank (Call account) - 62196695533	313,296	19,622
First National Bank - 62174958276	30,549	30,549
	981,708	**674,754**

4. Receivables from exchange transactions

	2012	2011
Consumer Debtors	8,717,838	5,652,092
Debtors Prepayments	-	51,706
Sundry debtors	36,759	37,528
	8,754,597	5,741,325
Less: Provision for doubtful debt	(1,969,277)	(1,867,090)
	6,785,320	**3,874,236**

Summary of debtors by customer classification

2012	Consumers and place of worship	Agriculture and commercial	National and Provincial Government	Total
Current (0 – 30 days)	180,875	314,802	84,915	580,592
31 - 60 Days	156,365	240,793	24,264	421,422
61 - 90 Days	142,480	191,889	23,783	358,152
91 - 120 Days	136,501	190,001	23,268	349,770
121 - 150 Days	131,343	177,181	23,048	331,572
151 - 180 Days	128,478	166,693	23,299	318,470
+181 Days	3,241,705	2,506,459	609,696	6,357,860
Sub-total	4,117,747	3,787,818	812,273	8,717,838
Less: Provision for doubtful debts	(1,969,277)	-	-	(1,969,277)
Total	**2,148,470**	**3,787,818**	**812,273**	**6,748,561**

Reconciliation of provision for doubtful debts

	2012	2011
Opening balance	1,867,090	1,079,532
Provision for impairment	102,187	787,558
Balance at the end of the year	**1,969,277**	**1,867,090**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

5. VAT receivable

VAT	1,755,075	993,348

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

6. Property rates

Rates received

Property Rates	5,169,761	3,957,330

The valuation roll of the Big 5 False bay municipality was prepared in accordance with the provisions of the Local Government: Municipal Preoperty rates Act, 2004 (Act 6 of 2004). It was prepared by Roger Martin Fitchet, Identity number 5807285141084, a registered professional valuer and was certified on the 31st day of january 2009. The roll is effective from 1 July 2009 to 30 June 2013.

7. Service charges

Service charges	1,020,336	1,237,384

8. Rental of facilities and equipment

Rental income	129,540	148,626

9. Interest earned

External investments	178,102	192,246

10. Rates penalties

Rates Penalties	994,896	691,334

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

11. Government grants and subsidies

Equitable share	12,360,000	9,746,782
Municipal Assistence Programme Grant	76	-
Financial Management Grant	1,450,000	1,086,019
Municipal Infrastructure Grant	10,268,830	6,213,210
Municipal System Improvement Grant	790,000	640,498
Sports and Recreation Grant	604,685	1,847,209
Corridor Development Grant	-	740,044
Treasury 1%	-	380,095
Library Grant	586,363	547,965
INEG (Electrification Programme Grant)	3,686,255	-
	29,746,209	**21,201,822**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastruction Grant

Balance unspent at beginning of year	1,728,644	1,943,854
Current-year receipts	9,234,000	6,052,162
Conditions met - transferred to revenue	(10,268,830)	(6,267,372)
	693,814	**1,728,644**

Conditions still to be met - remain liabilities (see note 22).

Financial Management Grant

Balance unspent at beginning of year	-	(113,981)
Current-year receipts	1,450,000	1,200,000
Conditions met - transferred to revenue	(1,450,000)	(1,086,019)
	-	**-**

Conditions still to be met - remain liabilities (see note 22).

Municapal Systems Improvement Grant

Balance unspent at beginning of year	-	(97,502)
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(790,000)	(652,498)
	-	**-**

Conditions still to be met - remain liabilities (see note 22).

Municipal Assistance Programme Grant

Balance unspent at beginning of year	76	76
Conditions met - transferred to revenue	(76)	-
	-	**76**

Conditions still to be met - remain liabilities (see note 22).

Figures in Rand	2012	2011

11. Government grants and subsidies (continued)

Sports and Recreation Grant

Balance unspent at beginning of year	34,455	34,455
Current-year receipts	675,000	-
Conditions met - transferred to revenue	(604,685)	-
	104,770	**34,455**

Conditions still to be met - remain liabilities (see note 22).

Corridor Development Grant

Balance unspent at beginning of year	-	740,045
Conditions met - transferred to revenue	-	(740,045)
	-	**-**

Conditions still to be met - remain liabilities (see note 22).

Recycle Development Grant

Balance unspent at beginning of year	40,000	40,000
Conditions met - transferred to revenue	(40,000)	-
	-	**40,000**

Conditions still to be met - remain liabilities (see note 22).

Library Grant

Current-year receipts	586,363	547,965
Conditions met - transferred to revenue	(586,363)	(547,965)
	-	**-**

Conditions still to be met - remain liabilities (see note 22).

INEG - Electrification Programme Grant

Current-year receipts	5,425,000	-
Conditions met - transferred to revenue	(3,687,427)	-
	1,737,573	**-**

Conditions still to be met - remain liabilities (see note 22).

Figures in Rand	2012	2011

12. Employee related costs

Basic	7,289,232	5,157,522
Contributions for UIF, pensions and medical aids	743,362	580,828
Travel, motor car, accommodation, subsistence and other allowances	727,989	624,272
Overtime payments	153,207	161,644
Bonus	276,288	228,660
	9,190,078	**6,752,926**

Section 57 employees remuneration included in employee related costs Refer to Note 12.1 for more details

12.1 SECTION 57 REMUNERATION

Remuneration of municipal manager

Annual Remuneration	580,568	560,198
Travel, motor car, accommodation, subsistence and other allowances	133,589	131,774
Contributions to UIF, Medical and Pension Funds	2,853	2,995
	717,010	**694,967**

Remuneration of chief finance officer

Annual remuneration	565,527	518,747
Travel, motor car, accommodation, subsistence and other allowances	204,756	111,732
Contributions to UIF, medical and pension funds	17,743	35,399
	788,026	**665,878**

Remuneration of planning services

Annual remuneration	565,527	518,747
Travel, motor car, accommodation, subsistence and other allowances	102,504	66,000
Contributions to UIF, medical and pension funds	2,995	2,995
	671,026	**587,742**

Corporate services

Annual remuneration	613,527	566,747
Travel, motor car, accommodation, subsistence and other allowances	97,247	56,397
Contributions to UIF, medical and pension funds	2,995	-
	713,769	**623,144**

13. Remuneration of councillors

Councillors	866,812	838,324
Councillors' pension contribution	142,689	129,967
Other	420,282	404,584
	1,429,783	**1,372,875**

In-kind benefits

The Mayor is provided with an office and secretarial support at the cost of the Council.

Employee Benefits

The Municipal employees belong to Natal Joint Municipal Pension Fund and Municipal Council Pension Fund, contributed amounts are paid over to the fund

Figures in Rand	2012	2011

14. Depreciation and amortisation

Property, plant and equipment	2,417,683	1,841,840

15. Finance costs

Other interest paid	109,593	102,977

16. General expenses

Audit Committee	185,886	71,805
Subscriptions and membership fees	-	1,450
Auditors remuneration	1,450,424	1,522,180
Bank charges	29,772	26,712
Assessment rates and municipal charges	-	91,367
Bursaries	175,000	279,755
Council support	75,345	14,008
Water	352,409	283,595
Entertainment	98,128	84,264
Assets expensed	23,718	9,582
Events and social projects	407,412	792,826
Fuel and oil	352,187	339,399
Housing survey	-	51,540
Insurance	110,701	79,968
Legal fees	51,108	268,449
Group life	57,373	161,825
License fees - vehicles	205,057	11,790
Other expenses	97,573	1,648
Lease rentals on operating lease	1,363,324	1,093,997
Postage and courier	475,483	447,324
Poverty alleviation	14,950	51,886
Printing and stationery	180,774	226,786
Publicity	200,601	135,190
Sport and recreation	27,444	4,338
Security	870,428	302,342
Uniforms	59,666	63,320
Upliftment programme	624,176	705,985
Disaster management	988,877	914,296
Plotter maps	-	1,850
Leave expense	20,809	213,964
Training	860,995	609,995
Computer expenses	128,096	108,275
Inservice Training	-	2,400
Loss on sale of asset	9,363	38,733
Other expenditure	72,645	-
	9,569,724	**9,012,844**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. Cash generated from operations

Surplus	9,272,414	4,658,781
Adjustments for:		
Depreciation and amortisation	2,417,683	1,841,840
Interest income	(178,102)	(192,246)
Correction of prior period error	1,526,316	2,160,017
Finance costs	-	102,977
Loss on sale of asset	9,363	38,733
Movements in provisions	(331,694)	248,669
Changes in working capital:		
Receivables from exchange transactions	(2,916,498)	(1,018,537)
Consumer debtors	(10,820)	-
Payables from exchange transactions	(651,663)	3,030,981
VAT	(761,727)	(983,504)
Unspent conditional grants and receipts	732,982	(3,135,997)
	9,108,254	**6,751,714**

Notes to the Annual Financial Statements

Figures in Rand

18. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	28,162,900	-	28,162,900	935,500	-	935,500
Buildings	38,942,136	(3,137,519)	35,804,617	27,654,515	(2,089,427)	25,565,088
Furniture and fixtures	487,421	(163,630)	323,791	306,293	(98,769)	207,524
Motor vehicles	1,484,084	(1,068,322)	415,762	1,424,375	(864,422)	559,953
Office equipment	1,139,792	(577,016)	562,776	877,511	(451,075)	426,436
IT equipment	980,550	(419,291)	561,259	787,634	(353,942)	433,692
Infrastructure	24,376,637	(3,945,824)	20,430,813	9,589,852	(3,230,957)	6,358,895
Community	8,000	(2,667)	5,333	8,000	(2,400)	5,600
Assets under construction	8,473,296	-	8,473,296	13,163,888	-	13,163,888
Total	**104,054,816**	**(9,314,269)**	**94,740,547**	**54,747,568**	**(7,090,992)**	**47,656,576**

Notes to the Annual Financial Statements

Figures in Rand

18. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers	Newly identified assets at fair value	Depreciation	Total
Land	935,500	-	-	-	27,227,400	-	28,162,900
Buildings	25,565,088	84,650	-	10,875,070	327,901	(1,048,092)	35,804,617
Furniture and fixtures	207,524	171,833	(1,966)	-	11,515	(65,115)	323,791
Motor vehicles	559,953	-	-	-	59,709	(203,900)	415,762
Office equipment	426,436	209,567	(5,403)	-	67,424	(135,248)	562,776
IT equipment	433,692	228,514	(1,671)	-	38,835	(138,111)	561,259
Infrastructure	6,358,895	-	-	1,317,700	13,469,085	(714,867)	20,430,813
Community	5,600	-	-	-	-	(267)	5,333
Assets under construction	13,163,888	7,502,178	-	(12,192,770)	-	-	8,473,296
	47,656,576	**8,196,742**	**(9,040)**	**-**	**41,201,869**	**(2,305,600)**	**94,740,547**

Reconciliation of property, plant and equipment - 2011

	Restated Opening balance	Disposals	Additions	Depreciation	Total
Land	935,500	-	-	-	935,500
Buildings	25,936,964	-	536,657	(908,533)	25,565,088
Infrastructure	6,877,332	-	-	(518,438)	6,358,894
Community	5,600	-	-	-	5,600
Other property, plant and equipment	1,878,168	(38,708)	129,552	(341,406)	1,627,606
Assets under construction	4,862,336	-	8,301,552	-	13,163,888
	40,495,900	**(38,708)**	**8,967,761**	**(1,768,377)**	**47,656,576**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand

19. Intangible assets

	2012			2011		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	691,920	(378,406)	313,514	582,307	(267,234)	315,073

Reconciliation of intangible assets - 2012

	Opening balance	**Additions**	**Disposals**	**Amortisation**	**Total**
Computer software, other	315,073	110,838	(312)	(112,084)	313,515

Reconciliation of intangible assets - 2011

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, other	377,123	11,415	(73,465)	315,073

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

20. Provisions

	2012	2011
Leave Provision	478,099	676,680
Bonus Provision	-	222,413
Landfil Site Provision	939,775	850,475
	1,417,874	**1,749,568**

Reconciliation of provisions - 2012

	Opening Balance	Reversed during the year	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Land fill site Provision	850,475	-	89,300	-	939,775
Bonus Provision	222,413	(222,413)	-	-	-
Leave Provision	676,680	-	-	(198,581)	478,099
	1,749,568	**(222,413)**	**89,300**	**(198,581)**	**1,417,874**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Change in discount factor	Total
Land fill site Provision	769,661	-	80,814	850,475
Bonus Provision	222,413	-	-	222,413
Leave Provision	508,825	167,855	-	676,680
	1,500,899	**167,855**	**80,814**	**1,749,568**

The provision for rehabilitation of landfill site relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at 10.5%, over an average period of 20 years.

21. Payables from exchange transactions

	2012	2011
Trade payables	4,699,314	6,697,132
Payments received in advanced - contract in process	59,811	51,706
Site deposit	2,513,960	553,960
Unallocated deposits	1,018	1,018
Housing project	-	822,632
Mahonge Community Trust	-	21,050
Accrued expense	40,907	40,907
Other creditors	421,098	199,372
	7,736,108	**8,387,777**

22. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2012	2011
MIG Grants	693,814	1,728,644
MAP	-	76
Sports and Recreation	104,770	34,455
Recycle Development Grant	-	40,000
INEG (Electrification Programme Grant)	1,737,573	-
	2,536,157	**1,803,175**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

22. Unspent conditional grants and receipts (continued)

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

23. Auditors' remuneration

Fees	1,450,424	1,522,180

24. Fruitless and wasteful expenditure

Opening Balance	1,009,421	617,000
Current year	109,593	392,421
Condoned by council	(1,009,421)	-
	109,593	**1,009,421**

Fruitless and wasteful expenditure incurred in the current year relates to interests and penalties on late paymets.

25. Operating lease

The operating leases have expired and they are renewed on a month to month basis and the municipality will only disclose commitments worth one year since the contracts can be terminated at any time during the next 12 months. At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:

Due within 12 months	1,294,847	248,700

26. Capital Commitments

Commitments in respect of capital expenditure

Commitments relates to MIG projects that have already been registered by June 2012 for the 2012/13 financial year

Approved but not yet contracted for		
- Infrastructure	11,228,000	34,880,000

The above capital expenditure will be financed from:		
- Government Grants	11,228,000	34,880,000

27. Statement of comparative and actual information

Notes to the Annual Financial Statements

Figures in Rand

27. Statement of comparative and actual information (continued)

2012

	Original budget	Budget adjustments	Virement (i.t.o.council approved)	Final budget	Actual outcome	Variance	Actuals as % of final budget	Actuals as % of original budget
Financial Performance								
Property rates	5,423,000	5,423,000		5,423,000	5,169,761	253,239	95 %	95 %
Service charges	1,380,000	1,380,000		1,380,000	1,020,336	359,664	74 %	74 %
Investment revenue	-	165,000		165,000	178,102	(13,102)	108 %	108 %
Transfers recognised - operational	16,016,000	15,846,000		15,846,000	29,746,209	(13,900,209)	188 %	186 %
Other own revenue	693,000	698,000		698,000	1,726,639	(1,028,639)	247 %	249 %
Total revenue (excluding capital transfers and contributions)	**23,512,000**	**23,512,000**		**23,512,000**	**37,841,047**	**(14,329,047)**	**161 %**	**161 %**
Employee costs	(8,595,685)	(9,181,685)	586,000	(8,595,685)	(9,190,078)	594,393	107 %	107 %
Remuneration of councillors	(1,414,730)	(1,428,148)	13,418	(1,414,730)	(1,429,783)	15,053	101 %	101 %
Debt impairment	-	-		-	(10,820)	10,820	100 %	100 %
Depreciation and asset impairment	(1,300,000)	(1,300,000)		(1,300,000)	(2,417,683)	1,117,683	186 %	186 %
Finance charges	-	(110,000)	110,000	-	(109,593)	109,593	100 %	100 %
Transfers and grants	(3,470,000)	(3,670,000)	200,000	(3,470,000)	(4,762,721)	1,292,721	137 %	137 %
Other expenditure	(8,731,585)	(7,822,167)	(909,418)	(8,731,585)	(10,647,955)	1,916,370	122 %	122 %
Total expenditure	**(23,512,000)**	**(23,512,000)**	**-**	**(23,512,000)**	**(28,568,633)**	**5,056,633**	**122 %**	**122 %**
Total revenue (excluding capital transfers and contributions)	23,512,000	23,512,000	-	23,512,000	37,841,047	(14,329,047)	161 %	161 %
Total expenditure	(23,512,000)	(23,512,000)	-	(23,512,000)	(28,568,633)	5,056,633	122 %	122 %
Surplus/(Deficit)	-	-	-	-	9,272,414	(9,272,414)	100 %	100 %
Surplus (Deficit) after capital transfers and contributions	-	-	-	-	9,272,414	(9,272,414)	100 %	100 %
Surplus/(Deficit) for the year	**-**	**-**		**-**	**9,272,414**	**(9,272,414)**	**100 %**	**100 %**

Figures in Rand	2012	2011

28. Risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and monitored on the monthly basis.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

29. Unauthorised expenditure

Opening balance	145,916	52,232
Unauthorised expenditure current year	5,056,633	93,684
Condoned or written off by council	(145,916)	-
	5,056,633	**145,916**

The current year unauthorised expenditure relates to over expenditure on the operating budget.

30. Contingencies

High court application fees	150,000	-

The contigent liabilities includes legal costs of an estimated amount of R150 000, which arose from Mbokodwe investment who demanded payments from the Municipality whereas they signed a session agreement with Pick 'n Build (the supplier). The application to High Court will be made in 2012/13 financial year.

31. Related parties

There were no related party transactions during the financial year.

Figures in Rand	2012	2011

32. Prior period errors

Correction under Accounts Payable relates to revenue not realised against the Housing Development Grant in prior years.

The corrections under fixed assets relates to reversal of depreciation on fully depreciated assets.

The correction of the error(s) results in adjustments as follows:

Account payable		
Previous disclosure	9,206,573	-
Correction of errors	(813,382)	-
Restated balance	**8,393,191**	**-**
Property, plant and equipment		
Previous disclosure	47,080,749	-
Correction of errors	575,827	-
Restated balance	**47,656,576**	**-**
Intangable assets		
Previous disclosure	188,420	-
Correction of errors	126,653	-
Restated balance	**315,073**	**-**

33. Going concern

Unspent Conditional Grants not cash backed	1,146,973	-

The Municipality will be financially viable in the 2012/13 financial year. Unspent conditional Grants will be banked on a separate bank account as per the provision of Division Of Revenue Act from the subsequent financial year. In the adjusted budget the Municipality will make a provision for previous years unspent provisional grants. The provision is also made in the three year budget plan.

34. Irregular expenditure

Suppliers in the service of state	45,600	-
Expired contracts - Current year	114,727	-
Expired contracts - Prior year	183,957	-
Preferiantial point system not used	109,287	-
Declaration of interest not provided by service providers	398,220	-
	851,791	**-**

The supplementary information is unaudited.